

Notes to the Financial Statements

For the year ended 31 December 1999

1. GENERAL

The Company is a public listed company incorporated in Bermuda and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

Its principal activity is investment holding and those of its subsidiaries are set out in note 11 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and of its subsidiaries for the year ended 31 December 1999. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Inter-company balances and transactions within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition or amortised on a straight-line basis to the income statement over its estimated useful economic life. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On the disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors or equivalent governing body. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally recognised as an expense in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvement	Over the remaining lease term
Office equipment, furniture and fittings	10% - 20%
Machinery and equipment	10% - 20%
Motor vehicles	20%

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets comprise business assets acquired and are amortised over their estimated useful lives. Business assets include mainly business plans, business contracts, copyrights and other intellectual property rights.

Long-term investments

Long-term investments represent investments in finished animated films, unfinished animated films and licence fee paid for television and home video rights in finished animated films. They are carried at cost, less provisions for any permanent diminution in value deemed appropriate by the directors and amortisation, where appropriate.

Amortisation is provided to write off the cost of the investments in finished animated films and the licence fee paid for television and home video rights in finished animated films over a period of five years.

No amortisation is provided on an unfinished animated film until it is finished and the distribution is started thereof.

Loans receivable and related production facilities agreements that transfer substantially all the rewards and risks of ownership of investment in finished animated films to the Group, other than legal title, are accounted for as long-term investments. At the inception of the above loans, the amount of loans are capitalised and included in long-term investments and amortised over the loans period. Any unamortised balance is written off to the income statement when the economic value of such investment ceases.

Investment securities

Investment securities held for an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their values, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

The profit or loss on disposal of investment securities is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Sales of animated films are recognised when films are delivered to the customers and title has passed.

Income in respect of telecommunication services provided to customers is recognised when the services are rendered.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Investment income is recognised when the Group's right to receive payment is established.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

On consolidation, the financial statements of overseas subsidiaries denominated in currencies other than Hong Kong dollars, are translated at the approximate rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Pension costs

Contributions are recognised as expenses as they become payable in accordance with the rules of the scheme.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognised as expenses on the straight-line basis over the lease terms.

Cash equivalents

Cash equivalents in the consolidated cash flow statement represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Sales of animated films	44,210	54,334
Telecommunication services income	1,035	—
Turnover	45,245	54,334
Interest income	995	251
Income from unlisted investments	498	642
Other revenue	1,493	893
Revenue	46,738	55,227

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

4. LOSS BEFORE TAXATION

This is stated after charging/(crediting):

	Group	
	1999	1998
	HK\$'000	HK\$'000
Amortisation of goodwill	—	1,772
Amortisation of long-term investments	3,511	2,686
Auditors' remuneration	557	543
Bad debts written off	3,000	—
Cost of inventories	21,773	20,833
Depreciation	3,506	3,367
Loss/(Profit) on disposal of property, plant and equipment	319	(17)
Operating lease charges on premises	3,008	3,678
Staff costs	27,271	23,143
Amount due from a jointly controlled entity waived	1,200	—

5. DIRECTORS' REMUNERATION

	Group	
	1999	1998
	HK\$'000	HK\$'000
Fees	—	—
Salaries, other emoluments and other benefits in kind	2,350	1,560
	2,350	1,560

No fees or emoluments was paid to the independent non-executive directors during the year (1998: Nil).

In additions to the above emoluments, certain directors were granted share options under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares" in the Report of the Directors.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

5. DIRECTORS' REMUNERATION (Cont'd)

The remuneration of directors were within the following bands:

	Number of directors	
	1999	1998
Nil	4	6
1 — 1,000,000	4	—
1,500,001 — 2,000,000	—	1
	<u>8</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (1998: one) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (1998: four) individuals were as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Basic salaries	2,540	3,106
Bonuses	300	—
	<u>2,840</u>	<u>3,106</u>

	Number of individuals	
	1999	1998
Nil — 1,000,000	—	3
1,000,001 — 1,500,000	1	1
1,500,001 — 2,000,000	1	—
	<u>2</u>	<u>4</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

6. RETIREMENT BENEFIT COSTS

Set out below are certain particulars regarding the provident fund scheme operated by the Group:

(a) Nature of scheme

The Group currently operates a provident fund scheme. The scheme is available to all employees of the Group. The assets of the scheme are held separately by independently administered funds.

(b) Funding of the scheme

The Group's defined contribution scheme is funded by contributions from employees and employer. The employees and employer contribute respectively to the scheme sums which represent percentages of salaries of the employees as defined under the relevant trust deeds.

(c) Cost of the scheme

The Group's total retirement costs pursuant to the scheme charged to the income statement during the year ended 31 December 1999 amounted to HK\$32,538 (1998: HK\$37,000) after offsetting contributions forfeited of HK\$21,052 (1998: HK\$51,000) by employees during the year. The forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years as at 31 December 1999 amounted to HK\$53,601 (1998: HK\$15,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

7. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16% (1998: 16%) on the estimated assessable profits for the year.

Overseas taxation represents income tax payable in the Peoples' Republic of China and is calculated at the prevailing rate.

The charge comprises:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Hong Kong Profits Tax:		
Current year	41	351
(Over)/Underprovision in respect of previous year	(21)	32
Overseas taxation	719	1,380
	<u>739</u>	<u>1,763</u>

The major components of deferred taxation not credited (provided) for the year are as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	187	148
Tax losses (arising)/utilised:		
Acquisition of a subsidiary	(2,579)	—
Current year	(395)	24,077
	<u>(2,787)</u>	<u>24,225</u>

8. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Company dealt with in the consolidated income statement amounted to HK\$70,989,000 (1998: HK\$46,062,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

9. LOSS PER SHARE

The calculation of basic loss per share is based upon the loss attributable to shareholders of HK\$78,408,000 (1998: HK\$63,555,000) and on the weighted average number of ordinary shares of 681,868,558 (1998: 443,194,585) in issue during the year. The 1999 and 1998 diluted loss per share are not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost					
At 1 January 1999	2,218	487	800	15,404	18,909
Acquisition of a subsidiary	1,371	—	102	531	2,004
Additions	—	—	269	1,106	1,375
Disposals	—	—	(578)	(518)	(1,096)
At 31 December 1999	3,589	487	593	16,523	21,192
Depreciation					
At 1 January 1999	1,263	248	533	5,485	7,529
Acquisition of a subsidiary	293	—	40	132	465
Charge for the year	184	68	267	2,987	3,506
Disposals	—	—	(466)	(311)	(777)
At 31 December 1999	1,740	316	374	8,293	10,723
Net book value					
At 31 December 1999	1,849	171	219	8,230	10,469
At 31 December 1998	955	239	267	9,919	11,380

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost			
At 1 January 1999	443	618	1,061
Additions	33	247	280
Disposals	(476)	(128)	(604)
At 31 December 1999	—	737	737
Depreciation			
At 1 January 1999	288	297	585
Charge for the year	138	122	260
Disposals	(426)	(71)	(497)
At 31 December 1999	—	348	348
Net book value			
At 31 December 1999	—	389	389
At 31 December 1998	155	321	476

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

11. INTERESTS IN SUBSIDIARIES

	Company	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	145,696	216,141
Provision for permanent diminution in value	(136,464)	(151,480)
	<u>9,232</u>	<u>64,661</u>
Due from subsidiaries	68,885	23,687
Provision for amount due from a subsidiary	—	(11,203)
	<u>68,885</u>	<u>12,484</u>
	<u>78,117</u>	<u>77,145</u>

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Country of incorporation and operation	Ordinary share capital issued		Percentage of nominal value of issued capital held by the Company		Principal activities
		Number/ amount	Par value per share HK\$	Directly	Indirectly	
Colorland Animation Productions Limited *	Hong Kong	3,250,000	1	—	60%	Investment holding and sales of animated films
Colorland Animation Productions (Shenzhen) Limited *	People's Republic of China	US\$500,000	—	—	60%	Production of animated films
Goldmarket Assets Limited	British Virgin Islands	139,371,568	1	100%	—	Investment holding
magictel.com Limited (formerly known as Magictel Limited)	Hong Kong	1,000	1	—	100%	Provision of telecommunication services
speedinsure.com Limited (formerly known as Cyber Pioneer Limited)	Hong Kong	10,000	1	—	70%	Provision of e-business service portal
TelaPortal Limited (formerly known as Bright Source Limited)	Hong Kong	2	1	—	100%	Provision of e-business service portal

* Companies not audited by Moores Rowland.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

11. INTERESTS IN SUBSIDIARIES (Cont'd)

The above summary lists the principal subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

12. INTANGIBLE ASSETS

	Group	
	1999	1998
	HK\$'000	HK\$'000
At cost	781	—

13. GOODWILL

	Group	
	1999	1998
	HK\$'000	HK\$'000
Cost		
At 1 January	70,445	68,171
Disposals	(70,445)	2,274
At 31 December	—	70,445
Amortisation		
At 1 January	36,772	35,000
Disposals	(36,772)	1,772
At 31 December	—	36,772
Net book value		
At 31 December	—	33,673

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	1999 HK\$'000	1998 HK\$'000
Share of net assets	—	11,284
Due from a jointly controlled entity	—	1,200
	<u>—</u>	<u>12,484</u>

In 1998, interest in a jointly controlled entity represented 25% equity interest in the registered and paid up capital of Chengdu Hongda Energy Co., Ltd. ("CHE"), a company established in the People's Republic of China. The Group had disposed its interest in CHE to a third party during the year.

15. LONG-TERM INVESTMENTS

Group	Investment in finished animated films HK\$'000	Television and home video rights in finished animated films HK\$'000	Investment in unfinished animated films HK\$'000	Total HK\$'000
1999				
Cost				
At 1 January 1999	16,699	285	539	17,523
Additions	4,269	—	6,299	10,568
Write-off	—	(285)	—	(285)
Transfers	6,838	—	(6,838)	—
Provision for diminution in value	(15,432)	—	—	(15,432)
At 31 December 1999	12,374	—	—	12,374
Amortisation				
At 1 January 1999	4,596	285	—	4,881
Charge for the year	3,511	—	—	3,511
Write-off	—	(285)	—	(285)
At 31 December 1999	8,107	—	—	8,107
Net book value				
At 31 December 1999	<u>4,267</u>	<u>—</u>	<u>—</u>	<u>4,267</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

15. LONG-TERM INVESTMENTS (Cont'd)

Group (Cont'd)

	Investment in finished animated films HK\$'000	Television and home video rights in finished animated films HK\$'000	Investment in unfinished animated films HK\$'000	Total HK\$'000
1998				
Cost				
At 1 January 1998	11,141	285	2,585	14,011
Additions	2,973	—	539	3,512
Transfers	2,585	—	(2,585)	—
At 31 December 1998	16,699	285	539	17,523
Amortisation				
At 1 January 1998	1,991	204	—	2,195
Charge for the year	2,605	81	—	2,686
At 31 December 1998	4,596	285	—	4,881
Net book value				
At 31 December 1998	12,103	—	539	12,642

16. INVESTMENT SECURITIES

At cost, unlisted

Group and Company

1999	1998
HK\$'000	HK\$'000

778

—

17. INVENTORIES

At cost:

Raw materials

Work-in-progress

Group

1999	1998
HK\$'000	HK\$'000

201

240

394

834

595

1,074

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

18. DUE TO A SHAREHOLDER

The amount due to a shareholder, Goldtron Limited, a company incorporated in the Republic of Singapore, is unsecured, interest-free and has no fixed terms for repayment.

19. ISSUED CAPITAL

	1999		1998	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised				
Preference shares of HK\$1 each:				
At 1 January				
and 31 December	<u>288,929,402</u>	<u>288,929</u>	<u>288,929,402</u>	<u>288,929</u>
Ordinary shares of HK\$0.02 each:				
At 1 January	750,000,000	15,000	750,000,000	15,000
Increase of ordinary shares	<u>750,000,000</u>	<u>15,000</u>	<u>—</u>	<u>—</u>
At 31 December	<u>1,500,000,000</u>	<u>30,000</u>	<u>750,000,000</u>	<u>15,000</u>
TOTAL		<u>318,929</u>		<u>303,929</u>
Issued and fully paid				
Preference shares of HK\$1 each:				
At 1 January				
and 31 December	<u>170,970,968</u>	<u>170,971</u>	<u>170,970,968</u>	<u>170,971</u>
Ordinary shares of HK\$0.02 each:				
At 1 January	518,449,380	10,369	434,449,380	8,689
Issue of ordinary shares	631,000,000	12,620	84,000,000	1,680
Exercise of share options	<u>10,000,000</u>	<u>200</u>	<u>—</u>	<u>—</u>
At 31 December	<u>1,159,449,380</u>	<u>23,189</u>	<u>518,449,380</u>	<u>10,369</u>
TOTAL		<u>194,160</u>		<u>181,340</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

19. ISSUED CAPITAL (Cont'd)

- (a) By an ordinary resolution passed at a special general meeting held on 1 September 1999, the authorised ordinary share capital of the Company was increased to HK\$30,000,000 by the creation of an additional 750,000,000 ordinary shares of HK\$0.02 each.
- (b) On 6 September 1999, the Company placed and issued 200,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.17 per share. The net proceeds of HK\$32,800,000 are being used for working capital purposes.

Pursuant to a sale and purchase agreement dated 14 September 1999, 240,000,000 new ordinary shares of HK\$0.02 each were allotted and issued at a price of HK\$0.23 per share in consideration of the entire issued share capital of magictel.com Limited, which have become a wholly-owned subsidiary of the Group since then.

On 10 November 1999, the Company placed and issued 190,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.45 per share. The net proceeds of HK\$83,300,000 were used for financing the expanding business and providing working capital of the Group.

On 13 December 1999, options were exercised to subscribe for 10,000,000 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$4,200,000.

Pursuant to an asset acquisition agreement dated 14 December 1999, the Company allotted and issued 1,000,000 new ordinary shares of HK\$0.02 each at a price of approximately HK\$0.778 per share to acquire certain assets from an independent third party.

- (c) The holders of the preference shares are entitled to convert all or any of the preference shares into fully paid ordinary shares on the basis of one ordinary share of HK\$0.02 each for every HK\$1 in nominal value of preference shares so converted, in accordance with the provision of the Company's Bye-laws. In each year the preference shares may be converted on any of the following dates:
 - (i) the date falling 30 days after the date of despatch of the audited financial statements of the Company for the last preceding accounting period to the holders of the preference shares; or
 - (ii) the date falling 30 days after the date on which the interim results of the Company in respect of any current accounting period shall be announced; or

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

19. ISSUED CAPITAL (Cont'd)

- (iii) such other dates as may be notified in writing by the directors to the holders of the preference shares not less than 30 days before such date.

In additions, as resolved by the directors on 16 December 1998, the preference shares may be converted every second Wednesday and last Wednesday of each month provided always that if such is not a business day then the next business day.

The Company may in accordance with the Bermuda Companies Act determine to redeem for a sum equal to (i) the nominal capital paid up or credited as paid up thereon and (ii) a fixed premium equal to five percent of the amount of such nominal capital and (iii) outstanding dividends, on any conversion date out of funds of the Company which would otherwise be available for dividend or distribution to the holders of any class of share or out of the proceeds of a new issue of ordinary shares.

20. SHARE OPTIONS

The Company had in issue the following share options as at the balance sheet date.

Date of options granted	Exercise price HK\$	Number of options outstanding
25 October 1999	0.42	51,630,223
16 November 1999	0.49	6,495,000
23 November 1999	0.60	4,100,000
		<u>62,225,223</u>

In accordance with the Company's Employee Share Option Scheme ("the Scheme") which was adopted in a Special General Meeting held on 25 October 1999, the directors of the Company may grant options to eligible employees to subscribe for shares in the Company. Any options granted can be exercised within the period as set out in the Rules and Regulations for the Scheme. The subscription price is determined by the board of directors and shall not be less than the higher of 80% of the average of the closing market prices of the shares for the five trading days immediately preceding the date of grant or the nominal value of a share.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

21. RESERVES

Group	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Other capital reserve HK\$'000	Reserve on consolidation HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1998	57,580	(35,133)	6	30,573	—	(111,619)	(58,593)
Shares issued at premium	6,720	—	—	—	—	—	6,720
Shares issue expenses	(324)	—	—	—	—	—	(324)
Shares repurchased in 1997	(20)	—	—	—	—	—	(20)
Net loss for the year	—	—	—	—	—	(63,555)	(63,555)
At 31 December 1998	63,956	(35,133)	6	30,573	—	(175,174)	(115,772)
Shares issued at premium	166,858	—	—	—	—	—	166,858
Shares issue expenses	(3,407)	—	—	—	—	—	(3,407)
Release on associates written off	—	36,250	—	(31,660)	—	—	4,590
Goodwill on acquisition of a subsidiary	—	—	—	—	(62,761)	—	(62,761)
Net loss for the year	—	—	—	—	—	(78,408)	(78,408)
At 31 December 1999	<u>227,407</u>	<u>1,117</u>	<u>6</u>	<u>(1,087)</u>	<u>(62,761)</u>	<u>(253,582)</u>	<u>(88,900)</u>
Company							
At 1 January 1998	57,580	—	6	—	—	(135,444)	(77,858)
Shares issued at premium	6,720	—	—	—	—	—	6,720
Shares issue expenses	(324)	—	—	—	—	—	(324)
Shares repurchased in 1997	(20)	—	—	—	—	—	(20)
Net loss for the year	—	—	—	—	—	(46,062)	(46,062)
At 31 December 1998	63,956	—	6	—	—	(181,506)	(117,544)
Shares issued at premium	166,858	—	—	—	—	—	166,858
Shares issue expenses	(3,407)	—	—	—	—	—	(3,407)
Net loss for the year	—	—	—	—	—	(70,989)	(70,989)
At 31 December 1999	<u>227,407</u>	<u>—</u>	<u>6</u>	<u>—</u>	<u>—</u>	<u>(252,495)</u>	<u>(25,082)</u>

There were no reserves available for distribution as at 31 December 1999 (1998: Nil).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

22. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1999 HK\$'000	1998 HK\$'000
Loss before taxation	(75,170)	(55,323)
Interest income	(995)	(251)
Income from unlisted investments	(498)	(642)
Depreciation	3,506	3,367
Loss/(Profit) on disposal of property, plant and equipment	319	(17)
Amortisation of long-term investments	3,511	2,686
Bad debts written off	3,000	—
Loss on disposal of subsidiaries	33,673	—
Loss on disposal of a jointly controlled entity	11,284	—
Loss on associates written off	4,590	—
Provision for diminution in value of long-term investments	15,432	—
Amount due from a jointly controlled entity waived	1,200	—
Property, plant and equipment written off	—	206
Amortisation of goodwill	—	1,772
Provision for long-term receivable	—	17,149
Provision for diminution in value of associates	—	43,586
Changes in working capital:		
Inventories	479	1,532
Trade receivables, deposits paid, prepayments and other receivables	(7,895)	62,257
Trade payables, receipts in advance, accrued charges and other payables	(973)	(14,467)
Due from related companies	824	(3,650)
Due to a shareholder	(180)	(61,165)
Exchange difference on long-term receivable and bank balances	—	(1,152)
Net cash outflow from operating activities	(7,893)	(4,112)

23. MAJOR NON-CASH TRANSACTION

Consideration for the purchase of a subsidiary that occurred during the year comprised issuance of ordinary shares. Further details of the acquisition is set out in note 24.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

24. PURCHASE OF A SUBSIDIARY

	1999 HK\$'000	1998 HK\$'000
Net liabilities acquired:		
Property, plant and equipment	1,539	—
Trade receivables, deposits, prepayments and other receivables	435	—
Bank balances and cash	739	—
Trade payables, receipts in advance, accrued charges and other payables	(6,821)	—
	(4,108)	—
Goodwill	62,761	2,274
	<u>58,653</u>	<u>2,274</u>
Satisfied by:		
Shares allotted	55,200	—
Direct costs incurred	3,453	2,274
	<u>58,653</u>	<u>2,274</u>

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary:

	1999 HK\$'000	1998 HK\$'000
Bank balances and cash acquired	(739)	—
Cash payment for direct costs	<u>3,453</u>	<u>2,274</u>
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	<u>2,714</u>	<u>2,274</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

25. DISPOSAL OF SUBSIDIARIES

	1999 HK\$'000	1998 HK\$'000
Net assets disposed	—	—
Unamortised goodwill written off	33,673	—
	<u>33,673</u>	<u>—</u>
Loss on disposal	(33,673)	—
	<u>—</u>	<u>—</u>
Satisfied by:		
Cash	—	—
	<u>—</u>	<u>—</u>

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Minority interest HK\$'000
At 1 January 1999	74,325	10,739
Cash inflow from financing	121,071	3
Shares issued for non-cash consideration	55,200	—
Share of profit for the year	—	2,499
Dividend paid to minority shareholders	—	(800)
At 31 December 1999	<u>250,596</u>	<u>12,441</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

27. COMMITMENTS

Commitments under operating leases

At the balance sheet date, the portion of outstanding commitments in respect of land and buildings not provided for under non-cancellable operating leases which are payable in the following year is as follow:

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:				
Within one year	1,786	1,047	893	730
In the second to fifth years inclusive	1,350	1,233	675	—
	<u>3,136</u>	<u>2,280</u>	<u>1,568</u>	<u>730</u>

Capital expenditure commitments

At the balance sheet date, the Group had the following capital expenditure commitments:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Authorised but not contracted for	<u>19,858</u>	<u>—</u>
Contracted but not provided for	<u>9,818</u>	<u>—</u>

28. RELATED PARTY TRANSACTIONS

During the year, the Company paid management fee to a shareholder amounting to HK\$1,500,000 (1998: HK\$2,000,000) pursuant to a management agreement dated 19 September 1994. The agreement was terminated on 30 September 1999 and no further payment was made since then.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

29. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities/(assets) unprovided are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Excess of tax allowances over depreciation	357	170
Tax losses carried forward	(10,469)	(7,495)
	<u>(10,112)</u>	<u>(7,325)</u>

A potential deferred tax asset has not been recognised in the financial statements in respect of tax losses available to set off future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

30. POST BALANCE SHEET EVENTS

(a) Changes in authorised and issued share capital

On 9 February 2000, an aggregate of 72,042,000 preference shares were converted into 72,042,000 ordinary shares of HK\$0.02 each at a price of HK\$1.05 per share.

On 15 and 16 February 2000, the Company placed and issued 200,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$3.6 per share. The net proceeds of HK\$705,000,000 will be used for financing expansion of existing business and providing additional working capital of the Group.

By an ordinary resolution passed at a special general meeting on 1 March 2000, the authorised ordinary share capital of the Company was increased to HK\$60,000,000 by the creation of 1,500,000,000 additional ordinary shares of HK\$0.02 each.

On 29 March 2000, an aggregate of 89,248,968 preference shares were converted into 89,248,968 ordinary shares of HK\$0.02 each at a price of HK\$1.05 per share.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

30. POST BALANCE SHEET EVENTS (Cont'd)

(b) Investments

On 3 February 2000, the Group entered into an agreement with Elmsdale Media Limited ("Elmsdale") for subscribing 357,142 shares in Elmsdale at a consideration of GBP4,000,000 (approximately HK\$49,880,000). The principal activities of Elmsdale is the establishment and operation of worldwide interactive programming and distribution services.

On 9 February 2000, the Group entered into an agreement with SUMmedia.com Inc. ("SUMmedia") for subscribing approximately 3.8% equity interest and 700,000 warrants in SUMmedia at a consideration of US\$3,675,000 (approximately HK\$28,592,000). Each warrant entitled the Group to acquire one share of SUMmedia at a price of US\$7 per share for a period of one year from the date of issue of such warrant. SUMmedia is an Internet media and marketing company that provides online coupons through its eCoupon portal.

Further to the memorandum of understanding entered into by the Group and Space Media Holdings Limited ("Space Media") on 28 December 1999, a formal subscription agreement was entered into by the two parties on 16 February 2000 for acquiring 20% equity interest in Space Media at an aggregate consideration of US\$2,500,000 (approximately HK\$19,450,000). The said consideration has been included in the authorised but not contracted for capital expenditure commitments as disclosed in note 27. Space Media is engaged in the provision of Internet advertising consultancy services.

31. COMPARATIVE FIGURES

Following the adoption of Statements of Standard Accounting Practice 1 and 2 issued by the Hong Kong Society of Accountants, certain comparative figures have been reclassified to conform to current year's presentation.

Summary of the Results and of the Assets and Liabilities of the Group

For the year ended 31 December 1999

	Results of the Group for the five years ended 31 December				
	1999	1998	1997	1996	1995
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
Continuing operations	45,245	54,334	48,557	84,678	64,717
Discontinued operations	—	—	28,160	79,915	25,556
	<u>45,245</u>	<u>54,334</u>	<u>76,717</u>	<u>164,593</u>	<u>90,273</u>
Loss from operations	(75,170)	(55,323)	(56,790)	(8,025)	(16,824)
Share of results of associated companies	—	—	(21,478)	—	—
Loss before taxation	(75,170)	(55,323)	(78,268)	(8,025)	(16,824)
Taxation	(739)	(1,763)	(1,366)	7	(88)
Loss from ordinary activities after taxation	(75,909)	(57,086)	(79,634)	(8,018)	(16,912)
Minority interests	(2,499)	(6,469)	(6,154)	(920)	2,356
Net loss attributable to shareholders	<u>(78,408)</u>	<u>(63,555)</u>	<u>(85,788)</u>	<u>(8,938)</u>	<u>(14,556)</u>
Loss per share					
Basic	<u>(11.5 cents)</u>	<u>(14.3 cents)</u>	<u>(24.4 cents)</u>	<u>(2.8 cents)</u>	<u>(4.7 cents)</u>

Summary of the Results and of the Assets and Liabilities of the Group (Cont'd)

For the year ended 31 December 1999

e-kong Group Limited

	Assets and liabilities of the Group for the five years ended 31 December				
	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000
Non-current assets	16,295	70,179	114,797	177,527	409,545
Current assets	115,752	15,406	108,802	79,119	80,447
Total assets	132,047	85,585	223,599	256,646	489,992
<i>Less:</i>					
Non-current liabilities	—	—	5,237	37,342	161,286
Current liabilities	14,346	9,278	86,625	15,917	60,591
Total liabilities	14,346	9,278	91,862	53,259	221,877
	117,701	76,307	131,737	203,387	268,115
<i>Less:</i>					
Minority interests	12,441	10,739	10,670	8,916	56,182
Total net assets	105,260	65,568	121,067	194,471	211,933